

FEDERAL HOUSING FINANCE BOARD

BOARD OF DIRECTORS MEETING

OPEN SESSION

Washington, D.C.

Wednesday, May 9, 2007

ANDERSON COURT REPORTING  
706 Duke Street, Suite 100  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190

## 1       PARTICIPANTS:

## 2       Board Members

3           RONALD A. ROSENFELD, Chairman

4           BRIAN MONTGOMERY, Director

5           GEOFFREY BACINO, Director

6           ALICIA R. CASTANEDA, Director

7           ALLAN I. MENDELOWITZ, Director

8           SHELIA WILLIS, Secretary

## 9       Also Present

10          NEIL R. CROWLEY

11          STEPHEN M. CROSS

12          PAT SWEENEY

13          TOM JOSEPH

14          CHRISTINA MURADIAN

15          J.P. GREEN

16          DARRIS MEEKS

17          CHRIS BOSLAND

18          JONATHAN LINDLEY

19          CHUCK JONES

20          BILL GLAVIN

21

22                           \*   \*   \*   \*   \*

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## 1 P R O C E E D I N G S

2 (10:00 a.m.)

3 CHAIRMAN ROSENFELD: Good morning,  
4 everyone. I call this meeting of the Board of  
5 Directors of the Federal Housing Finance Board to  
6 order. Today we will have an open session  
7 followed immediately by a closed session where the Board  
8 will receive updates of Examination and Supervisory Findings.

9 We now need to vote to approve closing  
10 the latter portion of today's meeting, as required  
11 by the Sunshine Act and Finance Board of Regulations.  
12 And since the closed portion of today's meeting  
13 will contain sensitive and confidential bank  
14 examination information, I would ask for a motion  
15 to seal the transcript of this portion of the  
16 meeting.

17 Director Bacino?

18 DIRECTOR BACINO: Mr. Chairman, I move  
19 to close the portion of this meeting, at which we  
20 will receive updates of examination and  
21 supervisory requirements, and, further, that we  
22 determine that the record and transcript of the

1 closed portion of the meeting be kept  
2 confidential.

3 CHAIRMAN ROSENFELD: Thank you for the  
4 motion. Is there any discussion on the motion?  
5 Any discussion?

6 Do I have a second?

7 DIRECTOR CASTANEDA: Second.

8 CHAIRMAN ROSENFELD: Thank you, Director  
9 Castaneda. Will the secretary please call the  
10 roll?

11 SECRETARY WILLIS: Well, the item before  
12 the Board, Director Bacino, how do you vote?

13 DIRECTOR BACINO: Yes.

14 SECRETARY WILLIS: Director Castaneda?

15 DIRECTOR CASTANEDA: Yes.

16 SECRETARY WILLIS: Director Mendelowitz?

17 DIRECTOR MENDELOWITZ: Yes.

18 SECRETARY WILLIS: Director Montgomery?

19 DIRECTOR MONTGOMERY: Yes.

20 SECRETARY WILLIS: Chairman Rosenfeld?

21 CHAIRMAN ROSENFELD: Yes. The motion is  
22 carried and a subsequent portion of our meeting

1 will be closed, and its transcript will remain  
2 closed and confidential. Thank you.

3 Let us now turn to the public portion of  
4 today's meeting. The first item regarding the  
5 designation of directorships for the Federal Home  
6 Loan Banks. Who will be making the presentation?  
7 Pat?

8 MS. SWEENEY: Thank you. Each year the  
9 Finance Board is required to allocate the elective  
10 directorships of each of the federal home loan  
11 banks among the states in the banks districts.  
12 The calculation for allocating the directorships  
13 are based primarily on the amount of bank stock  
14 owned by the members in each state. However, the  
15 calculation may be adjusted under a grandfather  
16 provision which requires each state to have at  
17 least as many directorships as it had in 1960, and  
18 under another provision that authorizes the  
19 Finance Board to increase the size of the boards  
20 of the banks in any of the districts that have  
21 five or more states. Staff recommends that the  
22 Board of Directors approve the 2007 designation of

1 bank directorships as set out in the resolution  
2 and two attachments provided in your board books  
3 and as summarized as follows:

4 First, designate the minimum required  
5 allocation of elective directorships by state for  
6 a total of 109 statutory seats, which is two less  
7 than last year's total.

8 The second is to approve nine  
9 discretionary elective directorships currently  
10 allocated by the Board, which is no change from  
11 what's in place right now.

12 The third is to maintain the 10  
13 discretionary appointive directorships currently  
14 allocated by the Board.

15 The Finance Board conducts the annual  
16 allocation of directorships in accordance with the  
17 mathematical formula known as the Method of Equal  
18 Proportions. The first step in apportioning the  
19 eight elective directorships per bank is to assign  
20 one elective directorship to each state. The  
21 balance of the eight directorships remaining, if  
22 any, is then assigned using the Method of Equal

1 Proportions.

2           Directorships are assigned according to  
3 this formula based largely on the amount of stock  
4 held by members in the state at the end of the  
5 year of the prior year. This year the application  
6 of the Method of Equal Proportions and the  
7 grandfather provision results in the total of 109  
8 required elective directorships being allocated  
9 across the system.

10           This number reflects a net reduction of  
11 two compared to 2006. The number required is  
12 decreasing by one in the districts of Boston, New  
13 York, and Pittsburgh, and increasing by one in the  
14 district of Indianapolis. For the other eight  
15 banks calculations using the Method of Equal  
16 Proportions and the grandfather provision results  
17 in no change to the number of elective  
18 directorships; however, in the district of San  
19 Francisco, Nevada gains one seat and California  
20 loses one seat.

21           And now, just a brief description of  
22 what's going on. In Boston the loss of one seat

1       in Rhode Island is due primarily to a drop of 15  
2       percent in Bank of America, Rhode Island's advance  
3       activity.

4               In New York, the loss of one seat in the  
5       state of New York is due primarily to the merger  
6       activity involving two of the banks six largest  
7       borrowers involving out-of-district institutions.

8               In Pittsburgh, the loss of one seat is  
9       due, in Delaware, primarily to a 27 percent  
10      decrease in stockholdings of Delaware members  
11      resulting from GMAC bank's relocation of home  
12      office to Pennsylvania along with the subsequent  
13      reorganization of the GMAC charter.

14              In Indianapolis, Indiana experienced a  
15      26 percent decrease in member stockholdings  
16      resulting from mergers and consolidation activity  
17      involving out of district institutions while  
18      Michigan experienced a four percent decrease.

19              Applying the Method of Equal Proportions  
20      and the grandfather provision, Michigan gains one  
21      directorship.

22              And, finally, in San Francisco last year



1 we saw the shift of two seats from California to  
2 Nevada due to the home office relocation of  
3 Washington Mutual Bank to Henderson, Nevada. This  
4 year another seat shifts from California to Nevada  
5 with the home office relocation and increased  
6 borrowings of City Bank, which is the largest  
7 borrower both in the 12th District and also in the  
8 system.

9 For any bank, whose district includes  
10 five or more states, the Bank Act authorizes the  
11 Finance Board to increase the number of elective  
12 directorships up to 13 and increase the number of  
13 appointed directorships up to three-fourths the  
14 number of elected directorships. The banks of  
15 Boston, Atlanta, Des Moines, Dallas, and Seattle  
16 are the only banks to which the discretionary  
17 authority applies. In prior years, the Finance  
18 Board created additional elective and appointive  
19 directorships for each of these banks.

20 At present, the Finance Board has  
21 approved a total of 19 discretionary  
22 directorships, nine elective and 10 appointive for

1       these five banks. The approval of these  
2       directorships is purely a matter of discretion for  
3       the Board of Directors and is not dependent on the  
4       amount of bank stock held by the members in any  
5       particular state or any other factor.

6               As part of this Board package, a  
7       resolution has been drafted to preserve the 19  
8       discretionary seats. The Board of Directors,  
9       however, has the discretion to decline to  
10      reauthorize any or all of these directorships if  
11      it so chooses.

12             The resolution with attachments has been  
13      provided for action by the Board of Directors to  
14      approve this designation of directorships. The  
15      effective date of the designation would be January  
16      1, 2008.

17             Attachment 1 to the Resolution provides  
18      the minimum required allocation of the elective  
19      directorships for each state, the allocation of  
20      appointive directorships for each district, plus  
21      the proposed discretionary seats for both  
22      appointed and elected directorships.

1           Attachment 2 to the Resolution includes  
2           a matrix for each of the boards of directors which  
3           serves to preserve and maintain an historical  
4           record of the term and sequence for the staggering  
5           of the directorships.

6           This concludes my portion of the  
7           presentation, and I believe I will be followed by  
8           Neil Crowley.

9           MR. CROWLEY: If I may, Mr. Chairman, in  
10          putting together the designation package for you this  
11          week, we've followed the practices that we've had  
12          in place for a number of years here.

13          In going through -- and following  
14          those practices it's become apparent to us that  
15          there are certain areas of the process that could  
16          probably stand to be improved or made more  
17          efficient. Unfortunately, they also would require  
18          certain changes to our rulemaking, to our rules to  
19          make that happen.

20          And what I want to do is to inform you  
21          that we at a staff level are planning to present  
22          to you some time later -- probably in the summer

1       -- a proposed rule that would address some of the  
2       issues that we have with the designation, and in  
3       particular things like the discretionary seats  
4       which are seats available for banks with five or  
5       more states. The original practice, I think, had  
6       been to allocate those seats to the states that  
7       had the most members, the most stock, but over  
8       time we've sort of drifted away from that  
9       practice.

10               There are some other questions that come  
11       up from time to time, which is when seats migrate  
12       from one state to another based on fluctuations of  
13       stock from year to year as well as how we select  
14       which seat disappears where stock might drop in  
15       one state, but you might not have a corresponding  
16       increase in the other state.

17               So I just wanted to bring to your  
18       attention that although we've followed the current  
19       practice for this package, this is something that  
20       we think can stand some improvement, and we will  
21       be bringing something to you later in the year.

22               CHAIRMAN ROSENFELD: Any of the

1 directors have any questions? Comments?

2 DIRECTOR MONTGOMERY: What's with the  
3 background of the grandfather provisions? They've  
4 been challenged previously?

5 MR. CROWLEY: It's statutory. It dates  
6 to 1961, I believe, when the Board structure was  
7 most recently revised. I can't recall exactly how  
8 the Board -- the directorships were allocated  
9 there at that time, but I think part of the reason  
10 for that was to refocus the allocation, tie it  
11 more closely to the stock held by the members in  
12 each state.

13 But there was, apparently, a political  
14 compromise which put in a grandfather provision  
15 that said, notwithstanding this change, nobody  
16 will be worse off than they were back in 1960.  
17 So, in effect, when we do this, we allocate seats  
18 based on stock as it exists today. But if there  
19 is a state that is a result of that calculation  
20 and gets fewer seats than it had in 1960, we're  
21 obliged to give them the however many additional  
22 seats they need to get to what they had in 1960.

1                   DIRECTOR MONTGOMERY: Has it been  
2 challenged since that time?

3                   MR. CROWLEY: Not that I know of, no.  
4 You're talking about litigation or --

5                   DIRECTOR MONTGOMERY: No, an effort to  
6 change the legislation.

7                   MR. CROWLEY: Well, the House bill, I  
8 think originally would have repealed the  
9 grandfather provision, but there was an amendment  
10 in the markup that put the grandfather provision  
11 back in, so I believe that the bill at the House  
12 Banking Committee right now preserves the  
13 grandfather provision.

14                  CHAIRMAN ROSENFELD: Any other  
15 questions? Yes, Director Bacino?

16                  DIRECTOR CASTANEDA: No, I do not have one.

17                  DIRECTOR BACINO: Oh, okay.

18                  Neil, I'm glad to hear  
19 that we're going to look at this more closely over  
20 the next year, because the one thing that kind of  
21 came up to me as we were going through the  
22 briefing was, as the old commercial says: This

1       isn't your father's Oldsmobile. In the same way,  
2       this kind of isn't your father's Federal Home Loan  
3       Bank system. It is different, I think. Some of  
4       those things have changed.

5               I just want to make sure on one thing,  
6       though. By doing this, we are still retaining the  
7       ability to add or subtract the discretionary seats  
8       in the states?

9               MR. CROWLEY: Oh, yes.

10              DIRECTOR BACINO: Okay.

11              MR. CROWLEY: Yes, we're not -- and I  
12       think what we would suggest to you is a  
13       methodology or a practice to adhere to, and THAT  
14       question, is that something that you want to do  
15       each year, or do you want to revisit, for example,  
16       only when the terms expire? Because the  
17       designation is something that we are required to  
18       do each year, but the term of office, obviously,  
19       is three years. So it's the details of the  
20       process that we want to try to refine a little  
21       bit.

22              DIRECTOR BACINO: Okay, thanks.

1                   DIRECTOR CASTANEDA: So we may look at  
2                   these recommendations, but at the end of the day  
3                   perhaps we may not want to change anything  
4                   recommended?

5                   MR. CROWLEY: Absolutely. We just want  
6                   to make suggestions to you and get your views of  
7                   those.

8                   DIRECTOR CASTANEDA: Um-hmm.

9                   CHAIRMAN ROSENFELD: If there is nothing  
10                  else, I would accept the motion to approve the  
11                  resolution.

12                  DIRECTOR MONTGOMERY: I so move.

13                  CHAIRMAN ROSENFELD: Is there a second?

14                  DIRECTOR CASTANEDA: I second.

15                  CHAIRMAN ROSENFELD: Thank you, Director  
16                  Castaneda. Will the secretary please call the  
17                  roll?

18                  SECRETARY WILLIS: On the item before the  
19                  Board, Director Bacino, how do you vote?

20                  DIRECTOR BACINO: Yes.

21                  SECRETARY WILLIS: Director Castaneda?

22                  DIRECTOR CASTANEDA: Yes.



1 SECRETARY WILLIS: Director Mendelowitz?

2 DIRECTOR MENDELOWITZ: Yes.

3 SECRETARY WILLIS: Director Montgomery?

4 DIRECTOR MONTGOMERY: Yes.

5 SECRETARY WILLIS: Chairman Rosenfeld?

6 CHAIRMAN ROSENFELD: Yes. The motion is  
7 adopted. Is it possible to defer consideration of  
8 the Revised Rules until after I'm gone?

9 (Laughter)

10 MR. CROSS: Absolutely, sir.

11 DIRECTOR CASTANEDA: Which is when?

12 DIRECTOR MENDELOWITZ: I believe, Mr.  
13 Chairman, that's in your own power.

14 (Laughter)

15 PARTICIPANT: It's your verdict.

16 CHAIRMAN ROSENFELD: The second item of  
17 our agenda is the new business activity request  
18 from the Federal Home Loan Bank of Atlanta. I  
19 know who will be making the presentation. Let's  
20 roll.

21 MR. CROSS: By notice dated February 23,  
22 2007, the Atlanta bank requested approval to

1 participate in a program that they refer to as the  
2 Global Mortgage Alliance Program, and I'll refer  
3 to it by its acronym GMAP, or GMAP.

4 GMAP is a new venture intended to  
5 provide members of the Atlanta Bank and possibly  
6 other banks in the future with the means to sell  
7 fixed-rate conforming mortgage loans to a private  
8 sector entity.

9 The loans would be deposited in a trust  
10 which would issue a private label, MBS, backed by  
11 those participating members' mortgage loans. I  
12 want to emphasize these would be private label  
13 mortgage- backed securities. The Atlanta name or  
14 logo would not be used in the marketing of these  
15 securities. No representations would be made that  
16 these are securities of the Atlanta bank or the  
17 home loan bank system, or that the Atlanta bank is  
18 a partner in this venture.

19 The Atlanta bank would play a limited  
20 role in GMAP. The bank would market the product  
21 to its members, verify that member participants  
22 meet the program's operation and servicing

1 standards; that they would transfer settlement and  
2 monthly interest in principal payments; they would  
3 perform quality control functions and other  
4 ancillary services for a fee.

5 Atlanta will not provide advances to  
6 finance the purchases of the mortgages by the  
7 securitizer from participating members or to  
8 support the securitization of the loans.

9 In addition, the bank will not be  
10 involved in the structuring or the sale of the  
11 securities in any way. GMAP loans will be  
12 securitized using a senior subordinated structure  
13 where the subordinated tranches provide the credit  
14 enhancement for the more senior securities.

15 The senior securities will likely be  
16 registered with the Securities and Exchange  
17 Commission and sold in public offerings, although  
18 for the first few transactions the senior  
19 securities may be placed in private offerings to  
20 institutional investors. The subordinated  
21 securities will not be registered and will be  
22 offered in private placements to institutional

1 investors, including institutional investors  
2 affiliated with the securitizer.

3 In all cases, the offerings shall meet  
4 requirements of applicable security laws. The  
5 bank is under no obligation and has represented to  
6 us that it does not intend to invest in any of the  
7 securities. That said, these are mortgage-backed  
8 securities that would likely be eligible for the  
9 Atlanta bank's purchase or the purchase by other  
10 federal home loan banks under our existing  
11 standards.

12 GMAP is not an AMA program. There are  
13 two AMA programs, MPP and MPF. Under those  
14 programs -- and Atlanta participates in both of  
15 those programs -- the bank purchases mortgages and  
16 holds them in portfolio until maturity or until  
17 paid off by the borrower. At no time would the  
18 Atlanta bank acquire mortgages under GMAP; instead  
19 the bank will be facilitating the sale of  
20 mortgage loans by its participating members to a  
21 third party. Those loans would otherwise be  
22 eligible for purchase by the bank under its AMA

1 authority. Members will retain an outlet for  
2 their mortgage loans, but the bank does not incur  
3 the interest rate risk associated with the  
4 purchase of mortgages from participating members.

5 Our planned response to the bank will  
6 state that the approval, if granted, is limited to  
7 the specific facts and circumstances and  
8 representations set forth in the bank's submission  
9 that will include, but not be limited to, the  
10 following:

11 The bank will not sell its existing AMA  
12 portfolio to GMAP under this approval, and the  
13 underwriting standards will be as set forth in the  
14 GMAP guide which accompanied the submission, which  
15 will limit the program in a number of ways, to  
16 include that the loan be first liens;

17 That they be fixed-rate level payment  
18 loans with terms of no more than 30 years;

19 That there be no adjustable rate or  
20 graduated payment loans;

21 That there be no negative amortization  
22 or interest-only or bi-weekly payment mortgages;

1           That mortgages must be originated within  
2   12 months of purchase, credit scores must be  
3   current within 180 days of delivery date.

4           Further, the loans must comply with  
5   responsible lending standards that's set forth in  
6   the notice. We have reviewed those standards, and  
7   they fully satisfy our advisory bulletin 2005 AB08  
8   guidelines and Federal Home Loan Bank  
9   anti-predatory lending policies. That bulletin  
10  was dated August 25, 2005.

11          Specifically, as will be stated in any  
12  approval letter, the program will not accept loans  
13  that violate any applicable federal, state, or  
14  local anti-predatory lending law or that have  
15  prepayment penalties, single premium credit  
16  insurance, mandatory arbitration provisions, rates  
17  or fees in excess of the Home Ownership Equity  
18  Protection Act, or HOPA thresholds, or loans that  
19  are classified as high- cost, high-risk, or  
20  high-fee under any applicable federal, state, or  
21  local rule, regulation, or ordinance. Nor will  
22  federal preemption be taken into account in the

1 enforcement of those anti-predatory lending  
2 guidelines.

3 In light of that information and our  
4 analysis, we found no statutory, regulatory, or  
5 safety and soundness bars to the bank's proposed  
6 activities. Based on our assessment of the notice  
7 and its accompanying materials, I am prepared to  
8 approve the bank's notice. The approval is solely  
9 for the activity set forth in the notice and any  
10 material changes would require a separate notice  
11 and Finance Board approval. Approval would be  
12 limited to the Atlanta bank.

13 I bring this matter to the Board's  
14 attention in case there are any issues you would  
15 wish to discuss before action is taken under  
16 delegated authority, and to afford you an  
17 opportunity to discuss any policy-related issues  
18 that might arise from this action. As always,  
19 policy remains the purview of the Board of  
20 Directors.

21 That's the end of my presentation.

22 CHAIRMAN ROSENFELD: Thank you very

1 much.

2 MR. CROSS: I am joined by Christina  
3 Muradian from the Office of Supervision and Tom  
4 Joseph from the Office of General Counsel, who  
5 will assist me if there are questions that you may  
6 wish to ask about our analysis.

7 CHAIRMAN ROSENFELD: Do any other board  
8 members wish to comment or ask questions?

9 DIRECTOR MONTGOMERY: Could you need our  
10 concurrence, or do you just want it?

11 MR. CROSS: We do not need your  
12 concurrence, but this is of sufficiently unique  
13 character that we thought discretion was in some  
14 sense the better part of valor here that we wanted  
15 to alert you of our action in advance. And we  
16 are, of course, willing to -- we have not taken  
17 the action, and we are willing to and will take  
18 any comments of the Board into account either in  
19 our communication to the bank of approval, or in  
20 our final decision.

21 DIRECTOR MONTGOMERY: It sounds like to  
22 me you have concerns about it.



1                   CHAIRMAN ROSENFELD: Let me respond to  
2                   that observation. The staff has concluded that  
3                   they, from what, as Steve just indicated, find no  
4                   objection and would approve it.

5                   In conversations that I've had with  
6                   them, with the staff, we discussed the fact that  
7                   this is involving mortgages, and mortgages are a  
8                   highly visible activity within the home loan bank  
9                   system. And rather than merely have the staff  
10                  approve it in, basically, a nonpublic fashion, we  
11                  prefer to have the issue raised, aired, discussed  
12                  in public. It remains the purview of the staff to  
13                  approve or not approve, but, as Steve indicated,  
14                  he is raising it in public for the audience as  
15                  well as ourselves to hear that the Board will  
16                  raise whatever questions it may have, and it's  
17                  about as public as it can be.

18                  We are not -- just let me try to be a  
19                  bit technical -- the vote is not whether we  
20                  approve or disapprove the program; the vote is  
21                  basically to reauthorize, acquiesce in the staff's  
22                  decision. So we will have a chance to express our

1 views. They may or may not affect the staff's  
2 decision, but at the end of the day this issue has  
3 been, as I say, as public as it can be.

4 DIRECTOR MONTGOMERY: Well, it just  
5 strikes me you're either voting for something or  
6 against something. So I'm just curious -- I mean,  
7 is our concurrence required or can people just  
8 arbitrarily bring things before the Board or --

9 MR. CROWLEY: It's not being brought  
10 arbitrarily before the Board, it's being -- the  
11 action that needs to be taken here is the approval  
12 of the new business activity submission that  
13 Atlanta has given to us.

14 The Chairman has delegated the authority  
15 to approve that to the Director of the Office of  
16 Supervision, as Steve, as the chairman, have  
17 indicated. This is something new. It's somewhat  
18 different, it presents fewer risks to the bank in  
19 terms of not having the mortgage loans on the  
20 books, but it is something different and it is  
21 something that we think warrants discussion. So  
22 the vote that you will be asked to, is to affirm

1 the delegation in effect; it is not a vote on the  
2 merits or the substance of the submission because  
3 that remains with the Director of the Office of  
4 Supervision.

5 DIRECTOR MONTGOMERY: And have you done  
6 this previously?

7 MR. CROWLEY: No, we have not. We  
8 certainly have briefed board members,  
9 individually, on other matters where we think that  
10 there is some novelty or other reason for them to  
11 be aware of it, and in discussions among ourselves  
12 and with the Chairman, we thought that this was a  
13 good opportunity to discuss it with the board  
14 members in public in case any of you had questions  
15 or concerns that we could answer in public forum.

16 DIRECTOR CASTANEDA: I do have some  
17 comments.

18 DIRECTOR MONTGOMERY: That's confusing  
19 -- but thank you anyway.

20 MR. CROSS: But may I make one final  
21 stab at this? Many new business activity notices  
22 are very narrow, very technical and arcane. They

1 are of probably little interest in the specifics  
2 or details to board members or to the audience.  
3 And that's why the new business activity  
4 delegation, I believe, exists.

5 We have on occasion taken action on new  
6 business activities that were not arcane, narrowly  
7 focused or technical, and when the approval has  
8 become a matter of public record, questions have  
9 been asked by the press, the public, board members  
10 as to why they had not known more about the  
11 thought process before the action was taken and,  
12 therefore, irreversible. Those circumstances have  
13 almost always surrounded matters relating to the  
14 mortgage program or issues such as securitization.

15 In this case, I emphasized in the  
16 presentation that this is not a home loan bank  
17 securitization; it is not -- it is a private label  
18 securitization, and that the role of the home loan  
19 bank of Atlanta is very limited because those are  
20 the kinds of questions that have arisen in the  
21 past with respect to approved new business  
22 activities that tangentially involve the home

1 loans banks and a securitization process.

2 So my answer to you is that it has less  
3 to do with our reservations about any information  
4 or any aspects of this proposal and our desire to  
5 be public about the action we're taking address in  
6 public any of the issues before there is  
7 speculation based on rumor, innuendo, or partial  
8 information.

9 In this case, from a safety and  
10 soundness perspective, we think that the approval  
11 is relatively straightforward. As I stated at the  
12 end, I do believe that this can raise some public  
13 policy issues that principally surround the  
14 relationship between a home loan bank and a  
15 third-party engaged in activities that the home  
16 loan bank itself may not be permissible to do.  
17 And, therefore, I felt it was appropriate to bring  
18 it to the attention of the Board before the action  
19 was taken.

20 DIRECTOR MONTGOMERY: So you're more  
21 concerned about the optics of it? Is that what  
22 you're telling me, instead of the policy?

1           MR. CROSS: I am concerned about the  
2           potential optics issues if we don't lay out what  
3           we're doing publicly, fully, and completely before  
4           we take the action.

5           I don't know if that answers your  
6           question, but I find it hard to answer that  
7           question as a pure yes or no.

8           DIRECTOR MONTGOMERY: Is that because  
9           you're concerned about what we're doing, or the  
10          precedent we're setting, or --

11          I mean, I'm trying to read between the  
12          lines here, and I'm not getting comfortable on the  
13          --

14          MR. CROSS: I'm not a between-the- lines  
15          kind of guy, really. I'd say the answer is, no, I  
16          am not particularly concerned about the policy.

17          I am concerned that members of the Board  
18          may be concerned about it.

19          DIRECTOR MONTGOMERY: So you're not  
20          particularly concerned about the policy, so you're  
21          100 percent in support of the policy?

22          MR. CROSS: I would decline to say I'm

1       100 percent in favor of the policy.

2                   DIRECTOR MONTGOMERY: Eight-two percent?  
3       Ninety? Sixty-four?

4                   MR. CROSS: Certainly well over 50  
5       percent -- 72, 84, 93. Within that range.

6                   DIRECTOR CASTANEDA: Well, Director  
7       Montgomery, perhaps if you allow me to give you  
8       some of my concerns and views on theis new  
9       activity, perhaps you would understand where Dr.  
10      Cross and the fact -- and the Chairman have  
11      thought that it would be a good idea for the  
12      directors to express our opinions. So the  
13      first thing being, I wanted to say, is to thank  
14      Steve for his presentation and also Christina and  
15      Tom for the briefing.  
16                   I believe that they have considered what's  
17      appropriate from their perspective, namely safety  
18      and soundness implications. But I do believe,  
19      then, this is a policy matter, which I believe is  
20      this Board's obligation over and above safety and  
21      soundness not really defined. Even if the program  
22      works, and if it's risky -- and I think that Steve

1       couldn't put it in a better way -- it is a safety  
2       and soundness matter. It is going to be less  
3       risky than the bank's AMA program.

4               But I think what would be asked here  
5       today is to approve something, that at least to  
6       my knowledge is entirely new. If we approve  
7       this, we would be letting a home loan bank getting  
8       into what I would call the outsourcing business  
9       for the primary benefit of the single private  
10      entity. The bank would essentially be selling its 16  
11      existing proprietary information and technology,  
12      its administrative and marketing services, and,  
13      most importantly, its reputation and member  
14      relationships to one member established solely to  
15      be a conduit to the ultimate buyer and do so on an  
16      exclusive basis.

17             I can understand -- I can see why this  
18      appeals to the Atlanta bank and to the  
19      counterparty, but I don't think it's appropriate  
20      to exploit the GSE shutter in this way, and I  
21      certainly don't think one institution should be  
22      able to trade on their reputation and imprimatur



1 of the entirely federal home loan bank system,  
2 especially not for the benefit of the single  
3 private sector entity.

4 I am sorry, but I am just not convinced  
5 -- and this is an appropriate extension and use of  
6 the GSE charter. And I do believe again that  
7 there are important policy issues at stake here.

8 I think you were --

9 DIRECTOR MONTGOMERY: I appreciate your  
10 comments.

11 CHAIRMAN ROSENFELD: Director Bacino?

12 DIRECTOR BACINO: Just a couple of  
13 thoughts. First of all, I thank the Chairman and  
14 I thank Steve and Neil for bringing it to us this  
15 way.

16 I mean I know that this is a little out  
17 of the ordinary, but I'm hoping this is kind of  
18 the path we will take on some of these issues in  
19 the future. One of the frustrations that I've had  
20 in my time here has been that -- and it's a  
21 reputation I think it kind of preceded me coming  
22 here, from information I'd had from friends and

1 sources as well as people on the Hill -- is that  
2 we've sometimes tended to do things and then  
3 announced it. And I would prefer that if we're  
4 going to do things like that, that we have a forum  
5 like this where people have a chance to raise  
6 concerns, to raise issues.

7 Obviously, this was delegated, or is  
8 delegated to Steve, so he could have approved it  
9 or turned it down without doing this. So what I'm  
10 saying, the first thing is I would thank the  
11 Chairman, I would thank Steve and Neil for their  
12 briefing and for their willingness to bring this  
13 up to us in this format.

14 Secondly, I don't think this creates  
15 another housing GSE. I think this is a  
16 relationship between a bank and a vendor that,  
17 frankly, combines private sector secondary market  
18 capabilities with a program that can allow the  
19 mortgage needs of the community banks of this  
20 federal home bank to be served.

21 Obviously, one of the concerns we have a  
22 about the MPF and the MPP program is that those

1 loans sit on the books. These won't sit on the  
2 books of the Atlanta Home Loan Bank. I also think  
3 it's important that -- and I would ask you a  
4 question, Steve, I assume that if this works,  
5 we're going to see other people, other companies  
6 get into the market. Would that be a fair  
7 statement?

8 MR. CROSS: That's possible. We could  
9 also see other home loan banks seek to engage in  
10 this, and I think it would be fair to say there's  
11 no reason to believe that they would all  
12 necessarily use the same provider, same  
13 securitizer as Atlanta.

14 DIRECTOR BACINO: Frankly, if they do,  
15 that doesn't concern me as much as if there's  
16 somebody else that jumps into the game, you know,  
17 and it creates more competition which I also think  
18 is usually a good thing. So, frankly, I guess I'm  
19 looking at this, and I'm looking at the format in  
20 which we went through this in terms of having  
21 briefing as showing that we're being more clear,  
22 more open, maybe on our way to being a world-class

1 regulators, you know. And I would applaud you  
2 guys for doing that.

3 But as the program itself, I think it  
4 helps to meet the needs of, you know, mid-size and  
5 smaller community banks without putting an asset  
6 on the balance sheet of the Atlanta Home Loan Bank. So  
7 I applaud that as well.

8 CHAIRMAN ROSENFELD: Thank you, Mr.  
9 Bacino. If I may make a comment, and perhaps  
10 Judge Mendelowitz would care to speak about that.  
11 I think this is a -- once having established this  
12 program meeting the bar of the safety and  
13 soundness issue -- I think, quite frankly, it's a  
14 relatively easy decision.

15 If you look at the history of the home  
16 loan banks participating in the mortgage programs,  
17 what I think we find is there is one universal  
18 truth, and that is that the reason the home loan  
19 banks should participate in the mortgage programs  
20 is to help those basically small and medium-sized  
21 institutions, member institutions have an outlet  
22 for their mortgages.

1           That was the predicate for getting into  
2           the mortgage business, and based upon my now two  
3           and a half years here, with everyone I've spoken  
4           to in the industry, that seemed to be a legitimate  
5           service to the members, the vast majority of them  
6           who are small if not medium-size.

7           I think we've all had the benefit of  
8           history at this point, and we've seen that what  
9           was intended to be a benefit to a certain group of  
10          banks, the vast majority of our banks, the program  
11          in a sense of volume standpoint got taken over by  
12          a handful of very large institutions quite  
13          different than what this program was initially  
14          intended to do.

15          I think that what we're dealing with  
16          here is a very fundamental issue. If we accept  
17          the fact that it is desirable for the home loan  
18          banks to help its members -- primarily the small  
19          and medium-size members -- by volume mortgages,  
20          how should they do it?

21          Choice A is the AMA programs: MPF, MPP.  
22          We've seen what's happened in those programs.

1     What's happened in those programs, it is very --  
2     in its best light -- it's been very checkered  
3     success and I'm being very -- very complimentary  
4     in this description.

5             This program that's being discussed  
6     today seems to me to provide the benefit of having  
7     the small and medium-size members being able to  
8     dispose of their mortgages on a basis that does  
9     not involve the home loan banks taking on,  
10    basically, the interest rate risk that is  
11    prevalent in the AMA programs, which I think is an  
12    enormous advantage from where we are today.

13            Had this program been in existence some  
14    years ago, I suspect that probably a great deal of  
15    the discussion that this Board has about various  
16    issues at various banks, we will not need to have.  
17    Whether this program actually works or not, I  
18    don't know; that's for the marketplace. Whether  
19    these people who are buying mortgages with the  
20    intent of securitizing them, offer a better price  
21    in FANNIE or FREDDIE, or Wells Fargo or whoever  
22    else, I don't know.

1           But it seems to me that this is -- this  
2       is just another source of opportunity for the  
3       small and medium-size banks to sell their  
4       mortgages on whatever basis they deem most  
5       favorable.

6           And, having said that, and again  
7       reducing the risk taken by the home loan banks in  
8       the previous programs, I am fully supportive of  
9       the staff's decision on this matter.

10           Any other --

11           DIRECTOR MENDELOWITZ: I just wanted to  
12       ask a question about the 7J provisions, and our  
13       statute requires that the banks treat all of their  
14       members equally. Does this proposal satisfy the  
15       requirements of 7J and what's the legal reasoning  
16       for that decision?

17           MR. CROWLEY: I believe so, is that is  
18       something --

19           MR. JOSEPH: 7J requires that you treat  
20       members equally, but it doesn't prevent you from  
21       applying general commercial criteria to how you  
22       treat it. It doesn't necessarily mean that you

1     have to treat each members exactly the same. And  
2     within this, the provisions are such that it's  
3     well within the normal right of a board of  
4     directors to make a decision about who you will  
5     deal with, who you will contact with, and how you  
6     would structure those contracts for business  
7     reasons. And this falls within that general  
8     provision. And so I think it's consistent with 7J  
9     on those grounds.

10           DIRECTOR MENDELOWITZ: I had one other  
11     question about the overlap between in this  
12     proposal and potential ways of addressing the  
13     abusive practices in the subprime market. In a  
14     perfect world, some one with less than pristine  
15     capital should be able to walk into an originator  
16     and receive a mortgage with terms similar to a  
17     prime-conforming mortgage, 30 years fixed rate.  
18     And in a perfect world, the only difference would  
19     be that the interest rate should be somewhat  
20     higher to reflect the added risk of the  
21     less-than-pristine credit borrower. And that  
22     interest rate differential should reflect the



1 expected losses associated with a more risky  
2 borrower.

3 Up until five years ago subprime  
4 borrowers were probably underserved in the market.  
5 In the past five years, we've seen just the  
6 opposite. The subprime borrowers have been  
7 overserved because of an explosion, what has  
8 turned out to be really predatory lending  
9 practices.

10 As a practical matter, would there be  
11 anything about this program that would prevent its  
12 modification in the future, if it works, if it  
13 meets the market test to provide an outlet for  
14 subprime loans that are not predatory, that, in  
15 fact, protect the well-being and the interest of  
16 the borrower by basically structuring them  
17 comparable to loans that are envisioned under this  
18 program but having an interest rate somewhat  
19 higher to reflect expected losses?

20 MR. CROSS: The program as it is  
21 presented can accommodate that. It can  
22 accommodate mortgages that are fixed-term level

1 payment. They do not have to be at prime interest  
2 rates so long as they are not above the HOEPA  
3 thresholds, which I believe are about eight  
4 percent above the sort of prime level of interest  
5 rates.

6 So the answer to your question is,  
7 currently or in the future, the members could  
8 offer subprime loans so long as those loans are  
9 fixed-rate level payment loans that are not  
10 interest only and don't have some of the other  
11 provisions which, in combination with subprime,  
12 have created some of the issues that we're seeing  
13 in the subprime marketplace today.

14 DIRECTOR MENDELOWITZ: So from a policy  
15 perspective what you're telling the Board is that  
16 this program, in fact, provides a potential  
17 vehicle for having the home loan bank system  
18 contribute to providing acceptable quality  
19 financing options that would represent a real  
20 alternative to the abusive practices that are  
21 currently prevalent in the predatory lending?

22 MR. CROSS: That's true. This program

1 avoids the abusive practices that we have seen of  
2 the combination of nontraditional features with  
3 subprime.

4 It provides -- you used the word  
5 "potential." Potential is correct. I can't give  
6 an assurance that it will do that, but it provides  
7 potential because it is limited to fixed-rate  
8 level payment loans.

9 DIRECTOR MENDELOWITZ: Thank you.

10 DIRECTOR MONTGOMERY: Mr. Chairman, I  
11 understand there is not yet a motion, but so in  
12 lieu of a motion, I would have a request that we  
13 table this item until the next meeting.

14 CHAIRMAN ROSENFELD: I think I -- well,  
15 basically, the answer is I'm not in favor of that,  
16 Brian. We've been -- you haven't been through it,  
17 and, quite frankly, Staff, I don't understand why  
18 Director Montgomery has not been briefed. We  
19 briefed the secretary, and I wasn't aware prior to  
20 that that he was not going to be here. So Brian  
21 should have been briefed. I understand his  
22 concern of having not had the benefit of, you

1 know, all these deliberations going on. But, I  
2 mean, don't let it happen again. If he's going to  
3 be here, he ought to be briefed on it.

4 In any event, does anybody -- well,  
5 having -- I guess we -- do we vote on Director  
6 Montgomery's motion to defer it?

7 DIRECTOR MONTGOMERY: I didn't make a  
8 motion. I made a request. You, as chairman, can  
9 honor the request, or I can make a motion and it  
10 can be voted on.

11 CHAIRMAN ROSENFELD: Better try the  
12 motion.

13 DIRECTOR MONTGOMERY: Mr. Chairman, I'd  
14 like to make a motion that we table this item to  
15 the next board meeting.

16 MR. CROWLEY: Do you have a second?

17 CHAIRMAN ROSENFELD: I ask the secretary  
18 to produce a second.

19 MR. CROWLEY: Mr. Chairman, I believe we  
20 have a second.

21 DIRECTOR CASTANEDA: I second.

22 CHAIRMAN ROSENFELD: Okay. Call the

1 roll.

2 SECRETARY WILLIS: On the item before  
3 the Board, Director Bacino, how do you vote?

4 DIRECTOR BACINO: No.

5 SECRETARY WILLIS: Director Castaneda?

6 DIRECTOR CASTANEDA: Yes.

7 SECRETARY WILLIS: Director Mendelowitz?

8 DIRECTOR MENDELOWITZ: No.

9 SECRETARY WILLIS: Director Montgomery?

10 DIRECTOR MONTGOMERY: Yes.

11 SECRETARY WILLIS: Chairman Rosenfeld?

12 CHAIRMAN ROSENFELD: No. If there is  
13 nothing else, I would accept the motion to affirm  
14 the staff's authority to approve or disapprove the  
15 new business activity request from the banks.

16 DIRECTOR BACINO: So moved.

17 CHAIRMAN ROSENFELD: Okay. Second?

18 DIRECTOR MENDELOWITZ: I second that.

19 CHAIRMAN ROSENFELD: Director

20 Mendelowitz?

21 DIRECTOR MENDELOWITZ: (off mike)

22 CHAIRMAN ROSENFELD: Would the secretary

1 please call the roll?

2 SECRETARY WILLIS: On the item before  
3 the Board, Director Bacino, how do you vote?

4 DIRECTOR BACINO: Yes.

5 SECRETARY WILLIS: Director Castaneda?

6 DIRECTOR CASTANEDA: No.

7 SECRETARY WILLIS: Director Mendelowitz?

8 DIRECTOR MENDELOWITZ: Yes.

9 SECRETARY WILLIS: Director Montgomery?

10 DIRECTOR MONTGOMERY: I abstain.

11 SECRETARY WILLIS: Chairman Rosenfeld?

12 CHAIRMAN ROSENFELD: Yes. The motion is  
13 adopted. Do any other board members wish to  
14 comment?

15 Before commencing the closed session, I  
16 would -- the meeting's adjourned. The agenda is  
17 -- is -- anything else?

18 The meeting's adjourned.

19 (Whereupon, at 10:48 a.m., the  
20 PROCEEDINGS were adjourned.)

21 \* \* \* \* \*

22